

**The Contribution of Local Action to  
Reducing Worklessness**

**For NCRA Panel**

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## **1. Purpose**

This note provides a brief review of the contribution of local policy action to reducing worklessness. It begins with some important background and contextual points before considering the evidence and arguments for local action.

## **2. Introduction: recent progress**

There has been a significant reduction in the level of worklessness in the UK over the last decade and a half. The working age employment rate has risen from about 71% in 1993 to 75% today, and the overall numbers of people receiving out-of-work benefits has fallen. The general improvement in labour market conditions has affected most parts of the country and most population groups, including many of the most disadvantaged areas and groups.

Of course, some people and some areas have benefited more than others. For example, the general position of women has improved more than that of men. There has been a much larger reduction in recorded unemployment (particularly Jobseekers Allowance) than in worklessness more generally (particularly the numbers on 'incapacity benefits', which rose until 2003 and has since fallen slightly). The position of people with low skills and qualifications has deteriorated, against the general trend of improvement.

Overall, there remain large disparities in worklessness between places and people in different circumstances. Britain's cities tend to have the lowest employment rates. People at greatest risk of worklessness include men with low skills, members of ethnic minorities, people in receipt of incapacity benefit and those living in social rented housing.

## **3. The contribution of local action**

It is extremely difficult to disentangle the various reasons for these improvements in the labour market and to pinpoint the contribution of local policy action:

- (i) There are many factors involved, including macro-economic stability, increased public expenditure, growth of consumer spending, changes in labour market regulation, international migration, national welfare-to-work measures, as well as a host of regional, city and neighbourhood programmes, some of which are designed or at least delivered locally.
- (ii) It is technically difficult to assess the specific contribution of local action because the different factors interact in complex ways; there are indirect and invisible effects in terms of leakage, substitution, displacement and deadweight; and the immediate impacts may well differ from the more enduring effects.
- (iii) There is a lack of robust evaluative research on the impact of local policy action on worklessness, partly because of the technical complexity but also because most of this work is commissioned locally, uses very different approaches of variable quality, and is rarely placed in the public domain.

- (iv) Local employment initiatives tend to be context-specific and are often developed as part of a wider package of measures, so their particular contribution cannot be separated out very easily. Also their findings cannot be generalised to other circumstances.
- (v) There is no agreement on the criteria that should be applied to assess the effects of local action. For example, are all jobs relevant or only sustained jobs? Does 'local' mean the impact on a deprived neighbourhood or some wider area, bearing in mind leakage and displacement effects? And how does one compare the impact of programmes that cream off the most employable people with those targeted at disadvantaged groups facing multiple barriers to employment?

Therefore, in addition to recent published evaluative research, this review draws upon (i) the author's personal knowledge and experience of local projects and approaches over the last 25 years, and (ii) broader ideas and arguments about how the labour market works and why one might expect local policies to contribute to lower worklessness. It looks first at policies to create jobs (i.e. to increase the demand for labour), then at policies to improve the 'supply side' by increasing employability and tackling other barriers to employment, and finally at integrated policies that seek to combine elements of both.

#### **4. The importance of increased labour demand**

##### **4.1 *The basic argument***

The main reason for policies to stimulate the demand for labour is because a shortage of employment is an important part of the worklessness problem. Parts of the UK have experienced substantial deindustrialisation and deconcentration of jobs since the 1970s, particularly during deep recessions in the early 1980s and early 1990s. The consequences for areas such as former industrial cities and coalfields have been far-reaching, including unemployment and economic inactivity, family breakdown and rising crime, run-down and abandoned housing, environmental decay, derelict land and worn out infrastructure. The disparities in employment that were created or enlarged during this period have generally persisted since then, with a modest reduction in the gap between the best and worst areas.

According to textbook economics, the labour market should adapt to shocks of this kind through shifts in migration, commuting, wage expectations and retraining. The effects of localised job losses should be dissipated through a kind of ripple effect (or vacancy chain) across the whole travel-to-work area or 'functional labour market' as unemployed workers displace others nearby with lower skills as vacancies arise. In practice these adjustment mechanisms work slowly and inefficiently, especially at the lower end of the labour market where opportunities are more constrained, information about jobs is poorer, incentives are weaker and people are less mobile. Hence concentrations of worklessness tend to persist for decades and require targeted policy action to replace lost jobs in or near their original location.

Localised job creation favours the residents of deprived areas because the jobs are more accessible, mean lower travel costs and imply less competition than when residents seek jobs elsewhere. There is bound to be some leakage of jobs to residents of adjoining areas, but the net benefit of targeted job creation to local people is bound to be higher than if the jobs are created five, 10 or 15 miles away. Those who argue that the regional scale is the best at which to raise the demand for labour tend to play down the friction of distance and related barriers that prevent residents of deprived areas from securing a share of those jobs or the vacancies that arise through knock-on effects. Research has consistently shown the much shorter

commuting range and lower occupational mobility of low-skilled and manual workers than professionals, managers and technical staff. Local labour markets are more 'segmented' in spatial and occupational terms for the former than for the latter.

The potential for leakage of newly created jobs to in-commuters and in-migrants is more of an argument for carefully targeting demand-side policies on the most disadvantaged areas (ensuring the opportunities are suitable (within reach of their skills) and linking them to local residents through employability programmes) than a reason for not pursuing local economic development. Concentrations of worklessness also tend to be areas with poor quality housing, run-down environments, out-dated infrastructure, pressurised public services and families with exceptional social needs, so there are considerable opportunities for job-creating investment in improved services as well as physical structures and business conditions, i.e. all-round regeneration.

## **4.2 The evidence**

There is very little recent evidence to compare the impact or cost-effectiveness of different local policies to stimulate labour demand. Ideally, one would want evaluations of the following approaches, and pursued in consistent local conditions:

- Attracting inward investment, through
  - Land assembly, site reclamation and landscaping
  - Provision of access roads and other infrastructure
  - Provision of suitable buildings/premises
  - Financial incentives attached to capital investment or job creation
- Supporting the start-up and/or growth of local firms, through
  - Business advice and training
  - Financial assistance
  - Physical infrastructure and premises
  - Specialised assistance with marketing, technology or management development
- Levering jobs from construction or service provision, through
  - Public procurement and negotiations with major contractors
  - Support for social economy organisations
  - Creation of community enterprises

There are other kinds of evidence available that support the case for demand-side measures. A recent wide-ranging review of the evidence about the problem of worklessness in deprived areas concluded that:

“greater attention needs to be given to demand-side factors ... traditional supply-side explanations of the problem do not provide an adequate basis for effective policy responses” (Sanderson, 2006, p. 5-8).

A recent study of economic and employment policy confirmed a tendency to divorce demand-side measures from areas with highest worklessness: “Neighbourhood-level employment initiatives are often poorly linked into the wider local economic development process ... Until recently, most national and regional-level economic strategies have not attempted to link related employment generation and business opportunities to the needs of deprived areas” (North et al, 2007).

This is consistent with Sanderson's review, which stated that economic development strategies need to “give appropriate priority to the circumstances and needs of deprived areas in terms of the type of new jobs, opportunities to develop targeted

recruitment initiatives with employers, and accessibility issues, relating both to the location of employment sites and to the availability of public transport” (Sanderson, 2006, p. 9).

Studies of a variety of national employability and training programmes, such as the New Deal, have found that their effectiveness varies according to the state of the local labour market, and that it is more difficult to get people back to work in areas of low demand (Sunley et al, 2006). Furthermore, the relatively poor quality of available vacancies (low wages and temporary contracts) in areas of low demand creates greater recruitment difficulties than where demand is stronger (Sanderson, 2006).

Another set of arguments for demand-side policies relates to the need to engage directly with employers to tackle issues such as discrimination towards certain disadvantaged groups and areas, and low rates of job retention and progression. Evidence has been found of “employer reluctance to recruit the long-term unemployed, certain ethnic minorities, those with personal problems (eg language and mental health) and criminal records, residents of neighbourhoods with poor reputations and those dependent on unreliable public transport services” (Sanderson, 2006, p. 5-6).

### **4.3 Other observations**

Supporting the start-up of local firms:

Experience suggests that the contribution of this policy to reducing worklessness is limited because the numbers of workless people who start their own enterprises is quite small, failure rates are relatively high and the proportion that grow to employ other people is very small. Many workless people who start their own enterprises do so as a last resort and lack the diverse entrepreneurial, managerial and marketing skills and financial resources to create successful businesses. Despite these points, there is still a case for making support available for people who have no other option for generating an income or who have a strong desire and/or good business idea.

Supporting the growth of existing local firms:

Experience suggests that this policy has a somewhat bigger contribution to make to reducing worklessness. This depends greatly on the size and strength of the local economy and the foundation of local small and medium enterprises. The process of delivering assistance is difficult because support has to be tailored to the very diverse needs and capabilities of individual firms. Management, marketing and recruitment procedures also tend to be more informal than for larger firms. However, carefully targeted assistance can make a big difference to the growth trajectory of SMEs and create substantial numbers of jobs overall, especially in the medium rather than the short-term.

Attracting inward investment:

The effectiveness of this policy clearly depends on having sites available for development or redevelopment. Much depends on the ‘quality’ of the sites in terms of their location and layout, access to the strategic road network, basic condition (topography, underground infrastructure, extent of dereliction and contamination) and ownership. Where the conditions are suitable for development, this policy can create hundreds or even thousands of jobs. The proportion of jobs captured by the residents of deprived areas will vary greatly depending on the match between the skills required and the skills available locally.

Levering jobs from construction or service provision:

Experience suggests that this policy has a modest contribution to make to reducing worklessness. Construction occupations are very demanding physically and recruitment procedures are less straightforward than for many other sectors. Many of

the opportunities are inherently temporary as projects move from site to site. Yet, construction often matches the aspirations of young men with few qualifications, so it is a sector worthwhile targeting for additional job opportunities.

There are a host of additional opportunities in the provision of community services, covering activities such as childcare, classroom assistants, youth workers, environmental improvement and recycling schemes. There are many imaginative and successful projects around the country that fall under the umbrella of the social economy or community enterprise. They seem to depend particularly on a local champion with the vision and application to initiate and sustain the activity, together with special support from within the local bureaucracy. For this reason, it is often difficult to 'scale-up' or mainstream these initiatives.

## **5. Improving labour supply**

### **5.1 *The argument***

The main reason for policies to improve the supply of labour is because deficiencies among the workforce are part of the worklessness problem. The assumption is often that there is no shortage of jobs or vacancies, but rather that people are ill-equipped to secure the jobs. A wide range of attributes have been identified as potential constraints on peoples' employability or competitive position in the labour market:

- Skills, including 'hard' vocational skills and 'soft' attitudinal and behavioural skills
- Motivation, including the desire and incentives to work (benefit traps)
- Lack of information about job vacancies, perhaps because of weak personal networks
- Lack of information or unrealistic wage expectations
- Lack of confidence and low self-esteem
- Domestic circumstances, including caring responsibilities for children and relatives
- Health barriers, including sickness, disability and mental illness
- Personal debt, requiring repayment if people get a job
- Drug or alcohol dependency
- Possession of a criminal record
- Homelessness and lack of a fixed address

Given the variety of these factors, the policy response is unsurprisingly wide-ranging. There is a generally a combination of incentives ('carrots') and sanctions ('sticks'), reflecting the 'rights and responsibilities' agenda of the government. Local policies tend to give more emphasis to positive support and voluntary participation.

Different policies and programmes vary enormously in the degree and duration of support provided to individuals, so it is very hard to generalise. By and large, government programmes tend to be characterised by lower levels of personal support, more standardised provision and higher volumes of beneficiaries than local projects.

Another important distinction concerns the target groups of different programmes. These vary from people who are readily employable with few if any obstacles to work (such as the short-term unemployed) to people who are far from the labour market and face multiple barriers to work (such as most of the people on incapacity benefit). Experience suggests that projects aimed at people in the latter category require intensive 'outreach' services to engage and activate them on the long path back to work. It is clearly misleading to compare the effectiveness of programmes with different client groups.

A simple categorisation of supply-side measures is as follows:

- Employability and skills
  - Work first: information and basic advice about job seeking
  - Skills development: training in soft and/or hard skills
  - Work experience: practical experience 'on the job'
  - Confidence building and personal development
  - Intermediate Labour Market schemes provide a combination of the above
- Other barriers to work
  - Support for childcare provision
  - Specialised services – e.g. for rehabilitation from a health condition
  - Services dealing with drug or alcohol dependency
  - Debt counselling and money advice

## **5.2 The evidence**

There is very little recent evidence in the public domain that compares the impact or cost-effectiveness of different policies to improve the supply of labour and tackle the barriers to work faced by individuals. There is a growing number of evaluations of individual government programmes, but little comparative assessment or analysis of the impact in local contexts.

There is more indirect evidence of the need for supply-side programmes, as the following quote illustrates:

“There is strong evidence that lack of available and affordable childcare is a significant barrier to employment for lower income parents with young children in DNs, particularly mothers and especially lone parents. ... There is growing evidence of how inadequate public transport services in many DNs act as a barrier to reducing worklessness, especially for young people and women with low incomes .... There is some evidence of the importance of the composition and structure of social networks in providing ‘bridging social capital’, but also the influence of ‘bonding social capital’, for example through ‘peer influences’ on attitudes and perceptions” (Sanderson, 2006, p. 6).

There is also evidence that standard national programmes are less effective at assisting disadvantaged areas (and groups) than elsewhere: “national programmes have had less impact on disadvantaged groups and areas than on the overall level of unemployment and worklessness” (Sanderson, 2006, p. 7). In addition, “Existing labour market policies and programmes, while broadly successful in overall terms in reducing worklessness, have been less effective in helping the most disadvantaged groups and in reducing worklessness in deprived neighbourhoods. There is a need to improve the targeting of effective help on these groups and areas” (Sanderson, 2006, p. 8).

Meanwhile, there is some evidence for the effectiveness of more intensive local programmes: “Research on local job brokerage schemes, on local adult learning initiatives and on projects for young people with multiple disadvantages has provided additional supporting evidence on the need for ‘holistic’, client-centred approaches for disadvantaged groups, underpinned by effective outreach and inter-agency collaboration. For job brokerage schemes, effective joint working with Jobcentre Plus is especially important. There is also increasing evidence that Intermediate Labour Markets (ILMs) can provide an effective model for the long-term unemployed, by providing support and training in a real work environment” (Sanderson, 2006, p. 8).

### **5.3 Other observations**

Supply-side programmes tend to be lower cost than demand-side measures, partly because they involve service delivery with little if any capital investment. The services also tend to be higher volume and more routine than for, say, business development. However, there are bound to be higher levels of displacement, substitution and deadweight spending from supply-side programmes.

The appropriate form and level of support provided to individuals varies greatly (or should vary greatly) depending on their characteristics and circumstances. People who are readily employable require limited assistance whereas people who are detached from the labour market generally require much greater support. Government programmes have generally not been very good at distinguishing between the differing needs of individuals.

The 'work first' approach is low cost and high volume, but it can mean high levels of deadweight (many of the people involved would have got jobs anyway) or poor job retention and progression (because people are inadequately equipped for the jobs).

At the other end of the spectrum, the Intermediate Labour Market approach is much more costly and low volume, but this tends to mean low levels of deadweight (most of the people involved would *not* have got jobs anyway) and high job retention (because people are properly prepared for the jobs).

Experience suggests that resources for supply-side programmes are concentrated excessively on services for people who are relatively employable. Outreach and engagement activities are generally neglected by all labour market programmes, presumably because of the costs involved. However, they will be crucial if sustained reductions in worklessness are to be achieved, especially as services move towards seeking out the 'stock' of workless people further from the labour market.

Another area that warrants further attention is that of job retention and progression. This is also neglected by existing labour market programmes because they focus on work preparation rather than follow-up. Support for job retention and progression would help to reduce disruptive 'churn' among entry-level jobs, help people to move to better paid jobs with enhanced career prospects, and relieve 'congestion' or create 'space' at the bottom of the labour market for new entrants. This is also important for the progressive upgrading of the local economy and making inroads into the large 'stock' of worklessness that exists in many of Britain's former industrial cities and towns.

## **6. Integrating demand and supply**

### **6.1 The argument**

The argument here is that demand and supply-side measures may be inadequate on their own and a more integrated approach might be more effective. Creating jobs may not benefit the target groups because of their disadvantaged position in the labour market, so the jobs may 'leak out' of the area. And increasing the employability of workless individuals may not reduce the level of worklessness if they can't find any jobs, or if they secure jobs but only at the direct expense of other people in similar circumstances.

Hence the argument is about improving the match between labour demand and supply by managing both sides of the relationship. This seems to make sense for a variety of reasons, including getting employers involved in shaping supply-side

programmes so that people are properly equipped for the vacancies they create. The enhanced prospect of getting a real job at the end of training programme may also help to motivate jobseekers more strongly than where the prospects are more uncertain.

## **6.2 The evidence**

Once again there is little published evidence for the effectiveness of this approach. However, there are indirect indications of the value of linking demand and supply-side actions. For example: "Good relationships with employers are crucial in relation to vacancies, training, sectoral recruitment, post-employment support and the potential to influence recruitment practices" (Sanderson, 2006, p. 11).

In addition: "The evaluation of ESF Objective 3 found that local projects were less successful in achieving job outcomes for more disadvantaged groups, but provided evidence of the effectiveness of 'holistic' approaches supplying integrated packages of support for such groups" (Sanderson, 2006, p. 8).

## **6.3 Other observations**

The justification for linking emerging economic opportunities and needs (a 'LOAN' approach) is probably greatest where projects are of sufficient scale and profile to justify the managerial effort involved, although the principle is of course more widely applicable. The opportunities may be most significant in major new developments, such as business parks, inward investment in industry or distribution, or major retail schemes.

Anecdotal evidence suggests that there have been major successes achieved in schemes such as Glasgow Fort and Silverburn located near the peripheral housing estates of Easterhouse and Pollok respectively. Some 900 jobs were apparently secured for unemployed residents of Easterhouse from the Glasgow Fort retail development. The key seems to have been thorough and timely planning and preparation of people for the anticipated vacancies, plus 'aftercare' to ensure job retention. This was achieved through close cooperation between the local economic development agency and the developers and retailers involved in the scheme.

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